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FUNDING CORPORATION

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FARM CREDIT SYSTEM REPORTS NET INCOME OF $4.8 BILLION FOR 2016

For 2:00 p.m. (EST) Release

NEW YORK - The Farm Credit System today reported combined net income of $4.8 billion for the year ended December 31, 2016, as compared with $4.7 billion for the prior year. The System also reported combined net income of $1.3 billion for the fourth quarter of 2016, as compared with $1.2 billion for the fourth quarter of 2015.

“The System continues to execute its mission of lending to rural America despite headwinds arising from low prices for certain commodities,” remarked Tracey McCabe, President and CEO of the Federal Farm Credit Banks Funding Corporation. “Credit quality remains solid and System institutions remain well capitalized.”

2016 Results of Operations

Combined net income increased $160 million or 3.4% for the year ended December 31, 2016, as compared with the prior year. The increase resulted primarily from an increase in net interest income of $432 million and a decrease in the provision for income taxes of $22 million, partially offset by increases in the provision for loan losses of $160 million and noninterest expense of $99 million and a decrease in noninterest income of $35 million.

Net interest income increased 6.2% to $7.4 billion for 2016, as compared with $7.0 billion for the prior year. The increase in net interest income resulted from a higher level of average earning assets, partially offset by a lower net interest spread. Average earning assets grew $24.7 billion or 9.0% to $299.6 billion for 2016, as compared with the prior year.

Net interest margin decreased six basis points to 2.49% for 2016, as compared with 2.55% for 2015. The decline in the net interest margin was due to a decrease in the net interest spread of nine basis points to 2.31% for 2016, as compared with 2.40% for 2015. The decline in the net interest spread was largely driven by an increase in debt costs and lower lending spreads due to competitive pressures. The net interest spread was positively impacted by the Banks’ ability to refinance outstanding debt at favorable interest rates. During 2016, the Banks called $57.9 billion of debt, as compared with $34.4 billion for 2015. The net interest margin was positively impacted by a three basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital).

The System recognized provisions for loan losses of $266 million and $106 million for the years ended December 31, 2016 and 2015. The increase in the provision for loan losses of $160 million primarily reflected an increase in industry-specific reserves due to continued low grain commodity prices, increased loan volume and modest deterioration in the credit quality of certain sectors of the loan portfolio.

Noninterest income decreased $35 million or 5.2% to $634 million for 2016, as compared with $669 million for 2015, primarily due to decreases in mineral income of $28 million and loan-related fees of $16 million and an increase in losses on extinguishment of debt of $14 million. Partially offsetting these decreases in noninterest income were increases in net gains on sales of investments and other assets of $17 million and income earned on Insurance Fund assets of $15 million.

Noninterest expense increased $99 million or 3.7% to $2.8 billion for 2016, as compared with $2.7 billion for 2015, primarily due to increases in salaries and employee benefits and occupancy and equipment expense. Salaries and employee benefits increased $71 million as a result of annual merit increases and higher staffing levels at certain System institutions. Occupancy and equipment expense increased $20 million for 2016, as compared with 2015, primarily due to increases in facilities and maintenance expenses.

The System recorded a provision for income taxes of $175 million for 2016, as compared with $197 million for 2015. The effective tax rate decreased to 3.5% for 2016 from 4.0% for 2015. The decrease in the effective tax rate was primarily attributable to decreased earnings at certain taxable System institutions and from a greater amount of patronage declared during 2016.

Fourth Quarter 2016 Results of Operations

Combined net income increased 4.3% to $1.3 billion for the fourth quarter of 2016, as compared with $1.2 billion for the fourth quarter of 2015. The increase in net income between these periods resulted from an increase in net interest income of $125 million, partially offset by increases in the provision for loan losses of $29 million, noninterest expense of $15 million and the provision for income taxes of $9 million, as well as a decrease in noninterest income of $20 million.

Net interest income increased 7.0% to $1.9 billion for the fourth quarter of 2016, as compared with $1.8 billion for the fourth quarter of 2015. The increase in net interest income primarily resulted from a higher level of average earning assets, largely due to increased loan volume, partially offset by a lower net interest spread. Average earning assets grew $19.6 billion or 6.9% to $304.6 billion for the fourth quarter of 2016, as compared with the same period of the prior year.

The net interest margin was unchanged at 2.52% for the fourth quarter of both 2016 and 2015. Despite being unchanged, the fourth quarter 2016 net interest margin was impacted by a three basis point decrease in the net interest spread to 2.34%, as compared with the fourth quarter of 2015, offset by a three basis point increase in income earned on assets funded by noninterest-bearing sources. The decline in the net interest spread was primarily due to an increase in debt costs and lower lending spreads due to competitive pressures.

The System reported provision for loan losses of $48 million and $19 million for the fourth quarter of 2016 and 2015. The provision for loan losses recorded in the fourth quarter of 2016 was primarily due to increased loan volume and specific credit challenges for a limited number of customers.

Noninterest income decreased $20 million to $186 million for the fourth quarter of 2016, as compared with $206 million for the fourth quarter of 2015. The decrease was primarily due to a decrease in loan-related fees of $33 million, partially offset by net gains on derivative and other transactions of $3 million for the fourth quarter of 2016, as compared to net losses of $6 million for the fourth quarter of 2015. Noninterest expense increased 2.0% to $763 million for the fourth quarter of 2016, as compared with $748 million for the fourth quarter of 2015. The increase was primarily due to increases in salaries and employee benefits of $17 million.

The provisions for income taxes were $39 million and $30 million for the fourth quarter of 2016 and 2015. The effective tax rate increased to 3.0% for the fourth quarter of 2016 from 2.4% for the fourth quarter of 2015 primarily due to increased earnings at certain taxable System institutions during the fourth quarter of 2016.

Fourth Quarter 2016 Compared to Third Quarter 2016

Combined net income was $1.3 billion for both the fourth and third quarters of 2016. While net income remained relatively unchanged, the components changed. Positively impacting net income in the fourth quarter of 2016 were increases in net interest income of $53 million and noninterest income of $23 million and a decrease in the provision for loan losses of $10 million, as compared with the third quarter of 2016. Net interest income increased primarily as a result of an increase in average earning assets in the fourth quarter, as compared to the third quarter. Offsetting the positive impact on net income in the fourth quarter of 2016, as compared with the third quarter of 2016 was an increase in noninterest expense of $78 million primarily due to increases in salaries, purchased services and other operating expense. Salaries increased primarily due to increases in performance-based compensation.

Loan Portfolio Activity

Gross loans increased $12.9 billion or 5.5% to $248.8 billion at December 31, 2016, as compared with $235.9 billion at December 31, 2015. This increase was primarily attributable to increases in real estate mortgage, agribusiness and rural infrastructure loans. Real estate mortgage loans increased primarily due to continued demand for cropland. The increase in agribusiness loans was due to higher levels of seasonal financing at many grain cooperatives and increased lending to food and agribusiness companies, as well as new loan growth in and advances on existing processing and marketing loans. The increase in rural infrastructure loans resulted from increased lending activity in the rural electric distribution and power supply sectors.

Credit Quality

The System's accruing loan volume was $247.2 billion at December 31, 2016, as compared with $234.6 billion at December 31, 2015. Nonaccrual loans were $1.6 billion at December 31, 2016, as compared with $1.3 billion at December 31, 2015. At December 31, 2016, 55.6% of nonaccrual loans were current as to principal and interest, as compared with 60.5% at December 31, 2015.

Nonperforming loans (which consist of nonaccrual loans, accruing restructured loans and loans 90 days or more past due) increased $333 million to $2.0 billion at December 31, 2016, as compared with $1.6 billion at December 31, 2015. These loans represented 0.79% of the System's loans at December 31, 2016, an increase from 0.69% at December 31, 2015.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" as a percentage of loans and accrued interest receivable were 97.4% at December 31, 2016, as compared with 98.1% at December 31, 2015. Loan delinquencies, which are defined as accruing loans 30 days or more past due as a percentage of accruing loans, was 0.26% at December 31, 2016, as compared with 0.20% at December 31, 2015.

The allowance for loan losses was $1.5 billion at December 31, 2016, as compared with $1.3 billion at December 31, 2015. Net loan charge-offs of $45 million were recorded during 2016, as compared with $37 million for 2015. The allowance for loan losses as a percentage of total loans was 0.61% at December 31, 2016 and 0.54% at December 31, 2015. The allowance for loan losses was 77% of the System's total nonperforming loans and 95% of its nonaccrual loans at December 31, 2016, as compared with 79% and 97% at December 31, 2015. Capital and the allowance for loan losses, which is a measure of risk-bearing capacity, totaled $53.8 billion at December 31, 2016 and $50.1 billion at December 31, 2015, and represented 21.6% of System loans at December 31, 2016, as compared with 21.2% at December 31, 2015.

Agricultural Outlook

The February 2017 United States Department of Agriculture (USDA) forecast estimates 2016 farmers' net cash income (a measure of the cash income after payment of business expenses) at $91.9 billion, down $12.8 billion from 2015 and $11.3 billion below its 10-year average of $103.2 billion. The USDA's February 2017 outlook for the farm economy, as a whole, forecasts 2017 farmers' net cash income to increase to $93.5 billion, a $1.6 billion increase from 2016 and $9.7 billion below the 10-year average. The projected increase in farmers' net cash income from 2016 to 2017 is primarily due to an expected increase in farm-related income of $3.7 billion, partially offset by a $1.0 billion decrease in crop receipts and an increase in cash expenses of $700 million.

Liquidity and Capital Resources

Cash and investments (principally all of which were held for liquidity purposes) increased $3.2 billion to $62.6 billion at December 31, 2016, as compared with $59.4 billion at year-end 2015. The System's liquidity position was 180 days and 181 days at December 31, 2016 and 2015. The Banks utilize investments for purposes of maintaining a diverse source of liquidity and for managing short-term surplus funds.

During 2016, four System institutions redeemed $1.1 billion of subordinated debt at par.

Total capital increased $3.5 billion to $52.3 billion at December 31, 2016, as compared with $48.8 billion at December 31, 2015. The System's retained earnings increased $2.7 billion to $43.2 billion at December 31, 2016, as compared with $40.5 billion at December 31, 2015. The increase was due to net income earned and retained, partially offset by patronage distributions of $1.4 billion. During 2016, one System institution issued preferred stock totaling $375 million. The proceeds from the issuance were used to increase regulatory capital and for general corporate purposes. Capital as a percentage of total assets was 16.4% at December 31, 2016, as compared with 16.1% at December 31, 2015.

About the Farm Credit System

Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow through the four Banks and 73 affiliated Associations. Farm Credit has been fulfilling this mission for a century by providing farmers with the capital they need to make their business successful and by financing vital infrastructure and communication services that rural communities need to create jobs and drive economic growth. For more information about Farm Credit, please visit farmcredit.com.

Additional Information

The 2016 financial results discussed herein are preliminary and unaudited. Copies of this press release, as well as other financial information regarding the System, including its annual and quarterly information statements, are available on the Federal Farm Credit Banks Funding Corporation's website at farmcreditfunding.com.

For further information and copies of annual and quarterly information statements, contact:

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Forward-Looking Statements

Any forward-looking statements in this press release are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties, including the completion of the System's year-end closing and review procedures, and third-party audit. More information about these risks and uncertainties is contained in the System's annual and quarterly information statements. The System undertakes no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

STATEMENT OF CONDITION DATA

	December 31, 2016	December 31, 2015
Cash and investments	$ 62,575	$ 59,378
Loans	248,768	235,890
Less: allowance for loan losses	(1,506)	(1,280)
Net loans	247,262	234,610
Accrued interest receivable	2,140	1,973
Other assets	3,485	3,503
Restricted assets	4,453	4,039
Total assets	$319,915	$303,503
Systemwide Debt Securities:		
Due within one year	$103,770	$ 91,622
Due after one year	154,012	151,713
Total Systemwide Debt Securities	257,782	243,335
Subordinated debt	499	1,550
Other bonds	2,431	2,879
Other liabilities	6,892	6,905
Total liabilities	267,604	254,669
Preferred stock	3,018	2,742
Capital stock	1,800	1,726
Additional paid-in-capital	1,391	1,316
Restricted capital	4,453	4,039
Accumulated other comprehensive loss	(1,534)	(1,447)
Retained earnings	43,183	40,458
Total capital	52,311	48,834
Total liabilities and capital	$319,915	$303,503

STATEMENT OF INCOME DATA

	For the Quarter Ended December 31,		For the Year Ended December 31,	
	2016	2015	2016	2015
Interest income	$2,693	$2,430	$10,431	$9,378
Interest expense	(770)	(632)	(2,984)	(2,363)
Net interest income	1,923	1,798	7,447	7,015
Provision for loan losses	(48)	(19)	(266)	(106)
Noninterest income	186	206	634	669
Noninterest expense	(763)	(748)	(2,792)	(2,693)
Income before income taxes	1,298	1,237	5,023	4,885
Provision for income taxes	(39)	(30)	(175)	(197)
Net income	$1,259	$1,207	$ 4,848	$4,688

FARM CREDIT SYSTEM
COMBINED FINANCIAL STATEMENT DATA
(in millions)

Statement of Condition Data - Five Quarter Trend

	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Cash and investments	$ 62,575	$ 63,178	$ 62,778	$ 58,303	$ 59,378
Loans	248,768	242,124	243,886	238,439	235,890
Less: allowance for loan losses	(1,506)	(1,457)	(1,433)	(1,350)	(1,280)
Net loans	247,262	240,667	242,453	237,089	234,610
Accrued interest receivable	2,140	2,508	2,056	1,835	1,973
Other assets	3,485	3,665	3,771	3,623	3,503
Restricted assets	4,453	4,343	4,234	4,136	4,039
Total assets	$319,915	$314,361	$315,292	$304,986	$303,503
Systemwide Debt Securities	$257,782	$251,992	$254,634	$245,049	$243,335
Subordinated debt	499	598	1,097	1,550	1,550
Other bonds	2,431	3,269	1,820	2,090	2,879
Other liabilities	6,892	6,111	6,340	6,254	6,905
Total liabilities	267,604	261,970	263,891	254,943	254,669
Preferred stock	3,018	3,147	3,051	2,768	2,742
Capital stock	1,800	1,773	1,749	1,724	1,726
Additional paid-in-capital	1,391	1,385	1,385	1,373	1,316
Restricted capital	4,453	4,343	4,234	4,136	4,039
Accumulated other comprehensive loss	(1,534)	(1,226)	(1,125)	(1,215)	(1,447)
Retained earnings	43,183	42,969	42,107	41,257	40,458
Total capital	52,311	52,391	51,401	50,043	48,834
Total liabilities and capital	$319,915	$314,361	$315,292	$304,986	$303,503

Statement of Income Data – Five Quarter Trend

For the three months ended:	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Interest income	$2,693	$2,623	$2,589	$2,526	$2,430
Interest expense	(770)	(753)	(746)	(715)	(632)
Net interest income	1,923	1,870	1,843	1,811	1,798
Provision for loan losses	(48)	(58)	(91)	(69)	(19)
Noninterest income	186	163	145	140	206
Noninterest expense	(763)	(685)	(672)	(672)	(748)
Income before income taxes	1,298	1,290	1,225	1,210	1,237
Provision for income taxes	(39)	(38)	(45)	(53)	(30)
Net income	$1,259	$1,252	$1,180	$1,157	$1,207